

# CEPAL

## Review

*Executive Secretary*  
Norberto González

*Deputy Executive Secretary for  
Economic and Social Development*  
Gert Rosenthal

*Deputy Executive Secretary for  
Co-operation and Support Services*  
Robert T. Brown

*Director of the Review*  
Raúl Prebisch

*Technical Secretary*  
Adolfo Gurrieri

*Deputy Secretary*  
Rosa Nielsen



UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
SANTIAGO, CHILE, AUGUST 1985

# CEPAL

Review

Santiago, Chile

Number 26

## CONTENTS

Note by the Director	7
Crisis and development in Latin America and the Caribbean. <i>Executive Secretariat, EOLAC</i>	9
Statement delivered at the Expert Meeting on Crisis and Development in Latin America and the Caribbean. <i>Enrique V. Iglesias</i>	57
The Latin American periphery in the global crisis of capitalism. <i>Raúl Prebisch</i>	63
The political and social outlook for Latin America. <i>Torcuata Di Tella</i>	89
Modification of the industrialization model in Latin America. <i>Klaus Esser</i>	101
The process of accumulation and the weakness of the protagonists. <i>Víctor E. Tokman</i>	115
The international crisis and Latin American development: objectives and instruments. <i>François Le Guay</i>	127
The revival of American hegemony. <i>Marta da Conceição Tavares</i>	139
Crisis, adjustment and economic policy in Latin America. <i>David Ibarra</i>	147
Remarks and comments	
Massad, C. "The real cost of the external debt for the creditor and the debtor", <i>CEPAL Review</i> , No. 19, April 1983, pp. 183-195	
<i>A note on the formal analysis of real debt servicing</i> (Roger Lindquist and Soren Wibe)	
<i>A reply</i> (Carlos Massad)	155
Recent ECLAC publications	156

# Statement delivered at the Expert Meeting on Crisis and Development in Latin America and the Caribbean

*Enrique V. Iglesias\**

It goes without saying that it is a source of great pleasure and emotion to be back here in what I continue to regard as my home, beside my dear friend Norberto González, in whose capable hands the institution now rests, and Dr. Raúl Prebisch, to whom I owe so much and whose opinion I value so highly. I am also very pleased and moved to be at this meeting for which we all worked so hard, which we were preparing so hopefully throughout the past year, and which is now a reality through the generous presence of all those attending.

We have long felt in ECLAC that there was a need for an integrating effort, an exercise of collective reflection on the times we are living through in Latin America. Two events were responsible, however, for precipitating our decision to hold a meeting for this purpose. One was the collapse in recent years of the neo-liberal options which seduced so many circles of opinion in so many countries in the 1970s. The neo-liberal solutions came to our countries together with important changes in economic outlook, and they were imposed through "social engineering" formulas which were linked in many cases with authoritarian political régimes. Those were difficult years for the work of ECLAC, when the specious lure of such formulae dangled over many of ECLAC's member governments. The collapse of these neo-liberal solutions was a warning shock for the region and of course for ECLAC too.

The second event was the crisis of external indebtedness —as it has been called— caused by the build-up of external debt and by a kind of treacherous turnaround in the international cycle marked by extravagant interest rates, the resurgence of protectionism, and violent contractions in the inflow of private capital.

It then appeared that the time had come to make a proper appraisal of the many experiences patiently analysed here in ECLAC from the conjunctural and medium- and long-term perspectives, which the region had followed from day to day and had intimately experienced at the intellectual and political levels, ECLAC decided at that point to promote a debate aimed fundamentally at weighing these experiences, reconsidering the many signals coming from the world economy, and setting afoot an exercise in collective reflection by technicians and politicians. I mention these two groups of persons because it is essential that this reflection should not be confined exclusively to the technical level if we really want to give renewed thought to the world in which we shall have to live after this crisis, which will be novel in many respects because of its profound asymmetry and complexity and which leaves us with every day that passes farther away from a theoretical basis for analysis and from any clear answers to the problems facing us.

Raúl Prebisch referred a little while ago to the crisis of the capitalist world,<sup>1</sup> which has undoubtedly been shrinking the room left to us to foresee and anticipate developments. We now feel that we are on shaky ground as regards the possible bases of an international economy in which we could have real confidence. On the other hand, the capitalist system has shown an unexpectedly great capacity for coping with the challenges facing it: during the years I was associated with ECLAC I witnessed a number of seemingly final crises of capitalism in succession, such as the monetary crisis, the gold crisis, the energy crisis, and now the debt crisis, which, it must be acknowledged, has seemed to be breaking up in the last few months.

\*Minister of Foreign Affairs of the Oriental Republic of Uruguay and former Executive Secretary of the Economic Commission for Latin America and the Caribbean.

<sup>1</sup>See the article by Raúl Prebisch in this issue of the *Review*.

I said earlier that the present crisis is very asymmetrical, for without a doubt it would seem laughable to assert that the United States or Japan were in crisis today. The forecasts, too, are very varied. Some observers say that the system is on the way to catastrophe, while others maintain that we are on the eve of a spectacular rebirth of the world economy thanks to the new technological advances which will imbue the world economy with vibrant dynamism. There is no doubt that we are living in a novel world, which has no precedents in the history of capitalism, and which is far beyond the compass of past experience and even the intellectual categories themselves. One thing which is clear, however, is that this crisis is accompanied by a new type of international relationship which corresponds much more closely to a return to the Schumpeterian model than to that of Keynes. In other words, those who have worked for so many years in the United Nations on a search for the fundamental elements of universal regulation, inspired directly or indirectly by the thinking of Keynes, must now acknowledge that we seem to be moving in the direction of a world without global regulators: a world ruled exclusively by the principle of struggle and competition.

The same crisis also seems to be visible in some respects in the socialist world, where the quest for efficiency and for the incorporation of new technology and institutional reforms has found such novel expression as what is now happening in the People's Republic of China.

In the developing world, too, the crisis has asymmetrical features. The flexibility shown in recent times by South-East Asia has meant that in many countries of that region the situation is substantially different from that existing in Latin America. On the other hand, the tragic conditions prevailing in Africa are also far removed from the crisis affecting us.

This has caused us to come to the conclusion that we really must speak of the special case of Latin America, even though there may well be some European and African countries in similar situations. Our crisis is part of a confused and perplexing world; there seem to be no clear theoretical bases to go on as there were in the 1950s, and the crisis is taking place within a set of parameters and conjunctions which make it very difficult to look ahead. It is this crisis that we

must tackle theoretically and politically in order to cope with challenges which present themselves in many different terms and on many levels.

The dimensions of the Latin American crisis oblige us, first of all, to consider the great heterogeneity of the region. It is increasingly difficult to speak of it as a whole and to give global pictures which have any meaning. Think, for example, of the difficulty of making a synthesis which includes both continent-sized Brazil and the mini-economies of the Caribbean. Even so, however, I would say that there are still four or five aspects of the Latin American crisis which are worth briefly recalling here.

Firstly, there can be no doubt that even in the 1970s the collapse of certain Latin American growth models could be foreseen. Nobody can deny that Latin America has changed considerably, often for the better, and a great deal has been done. It is sufficient to glance over some social and even economic indicators to realize that the Latin America of today is very different from that of the past, but nevertheless the fact remains that in the 1970s important contradictions were developing between the modern and the traditional sectors, between social demands and the capacity to sustain them, and between the modernization coming from outside under the impulse of international trade relations and the internal articulation which would be capable of giving us a self-sustaining growth model.

The external debt worked like an anesthetic, and the region was able to avoid facing up to many of the effects of these imbalances until the end of the 1970s, aided by a degree of financial indulgence unprecedented in the economic history of Latin America. All this filled us with doubts about many things and even gave rise to many false paradigms. It must be acknowledged that we were bedazzled and perplexed and that somehow, almost miraculously, many of the adverse effects were for the time being, warded off.

An important aspect of the present crisis in Latin America and the Caribbean was the financial indulgence to which I have just referred and which had a beguiling influence on all the models, whether orthodox or heterodox. In some cases it was motivated by a legitimate desire to increase investment, in others by the irrespon-

sible determination to adopt extravagant kinds of openness to international trade flows.

The fact is that widespread opening-up took place, and the consequence of this was an external situation which has become increasingly acute in the 1980s. At the end of the 1970s, Latin America's external debt of US\$ 200 billion, in a situation in which the growth rate of foreign trade was considerably higher than that of the product, seemed manageable; but in the 1980s, interest rates of up to 20%, the drop in the terms of trade and all the implications of the contraction of financial flows changed the prevailing climate so suddenly that the debt grew from those US\$ 200 billion to US\$ 350 billion, purely as a result of the interest which was accumulating. Thus, the situation became literally unmanageable and, in many respects, unforeseeable.

Another aspect of the crisis is represented by external relations. Nowadays the world is suffering from a sort of liberal shock which leads us to take an in-depth look at North-South relations, not just because these relations are marked by such phenomena as interest rates but also because there can be no doubt that this liberal shock which the world is now experiencing means that it would be Utopian to suppose that in the next few years we can expect a repetition of the extraordinary capital inflows or the booming terms of trade of the 1970s. On the contrary, I believe that Latin America, as a continent of intermediate development, is going to be abruptly involved in the rules of the game deriving from the liberal shock and will be increasingly exposed to concepts of competition, to the necessity of paying more than the odds for the privilege of entering markets, and to situations in which its position will have to be fiercely competitive and set within a context of reciprocity as a formula for international trade. Hence, when we call for "solidarity" in face of the crisis, we are forgetting that the world climate has changed, that the time of the Alliance for Progress is past, and that this is not the heyday of international co-operation of which we have so often dreamt in the United Nations. Such international co-operation is being increasingly directed towards cases of natural disasters, famines and other emergency situations, because the climate of international relations today is not the same: it is much crueller and

much more subject to the play of power relations; and this is an objective reality with which we have to live.

Another aspect of the crisis is that it is what I would call a crisis of highly ideologized macroeconomics. Thus, in Latin America we have witnessed the failure of ideologies that sponsored ingenuous formulas of economic populism in which social efficiency was betrayed in next to no time by economic inefficiency, and we have also witnessed doctrines of economic efficiency, devoid of popular support and of social efficiency, which have likewise blown to pieces. With regard to this reality, so important to economies such as ours, which need to command a grasp of certain structural aspects of macroeconomics to enable them to manage economic and social projects, the past has but imperfect guidance to offer. We must recognize that there have been no clear responses of any kind in this respect and that we are heavily in arrears with the structurally-oriented handling of macroeconomics in Latin America.

Yet another dimension of the crisis is that it is a crisis of ideas, not only in the developing but above all in the industrialized countries. I should find it hard to suppose that the neo-Keynesian equilibria which prevailed up to the beginning of the 1980s can be replaced merely by a return, pure and simple, to the economic rules in effect prior to the 1930s. Perhaps history will prove us wrong, but it is hard to believe that the world can operate in the presence of these financial imbalances, these fluctuations in exchange rates and these financial flows which transfer resources from one part of our continent to the other. It is hard to imagine that this can provide a firm foundation for sustained growth.

Development theory has gone out of fashion in the industrial countries; today it is no longer represented among the best-sellers in the bookshops. There has even been some deterioration in development theory as we knew it in the 1950s and the 1960s when it was predicated by such eminent thinkers as Raúl Prebisch, who is here with us today. There has even been erosion in some models (such as that of Tanzania) of which we who work in the United Nations had high hopes, while others viewed as egalitarian archetypes, such as that of China, are changing their traditional bases. We have seen a series of

approaches fall in the wayside, such as the basic-needs approach, the critical poverty approach and many others which claimed to be an answer and now seem to be fading out of the intellectual scene, KCLAC, however, as a centre of thinking which wishes to remain autonomous, owes a large debt to all these models, and it would be interesting to go further into the matter.

The changes which are taking place in the theory and practice of socialism itself are attracting our attention every day. We must understand why they are occurring. We must also understand why many of our economic models have not been capable of assimilating the changes taking place in the social structure; why many socio-economic models have been unable to influence the political concepts underlying present-day Latin American societies; and why we have this divorce between social, political and economic models instead of building them into a composite whole which would be at once social, political and economic. For the tendency to isolate solutions is not only doomed to failure but will do a serious disservice to the history of Latin America.

This meeting therefore has the basic task of progressing in the diagnosis of the crisis, suggesting ways of bringing it under control, reflecting on the process of structural change that we must face up to in dealing with the liberal shock, and making those structural changes which will bring us to a dynamic and just society.

I should like to say a few words on the matter of bringing the crisis under control. In these past few years we have all lived in the grip of what has been the most violent crisis of the past fifty years, involving the destruction of capital and unimaginable social costs. Perhaps because I come from one of those countries in the region that have been installed which are increasingly limited by the loss of autonomy of our internal reached in Latin America.

In every country adjustment mechanisms have been installed which are increasingly limited by the loss of autonomy of our internal policies due, *inter alia*, to the external debt and inflationary pressures.

The basic problem in bringing the crisis under control has to do with how to manage the external debt. The worst thing that could happen to the developed as well as the developing world

is to think that the problem of the external debt has been or is being settled. This message must be loud and clear. The debt problem has *not* been settled, notwithstanding the species of international complacency with which it is nowadays regarded. Not only is there no basic solution to the problem, but in some cases it is getting worse. And we have to say this with sober impartiality and a grave sense of responsibility.

I believe it is important to state clearly that the problem has gradually been managed to some extent and deferred, but in the present international environment and in the conditions which now prevail and those which threaten to prevail in the future, it would be a serious mistake to think that a solution for it is being found. This is why the countries of Latin America demand a political dialogue: not to politicize the debt, as has been claimed, or to deny the inevitable relationship between debtors and creditors or the individuality of each country as regards the debt question, but because the problem is of such magnitude and puts such constraints on our capacity for development that for us it is a highly political matter; so it is, however, for the industrialized countries, for if Latin America's economic problems get out of control, that will be a political problem for the whole world.

The second issue to which I attribute fundamental importance as regards bringing the current crisis under control is inflation.

In the 1950s and 1960s, there was only one country in Latin America with inflation over 50%; last year, however, there were seven, in three of which the rate of inflation was over 100%, while in some others it was close to or even more than 1 000% per annum. The average rate of inflation for the region in 1984 was 160%.

Inflation is an extremely serious matter because it is not only an economic but also a social and political problem. Certainly, we do not value stability above all else, as the orthodox approaches do, but neither are we so naive as to suppose that growth can still take place with these rates of inflation. What we are saying is that we are dealing with a long-standing problem which now, however, has very different characteristics from before. In the 1950s, we experienced inflation which was ascribable to the structural changes entailed by industrialization, urbanization and the problems facing the new society that

was taking shape in the region. In the 1970s, we had so-called "imported" inflation. The inflation of today is different; it is closely related to the debt issue and has unaccustomed characteristics connected with its long duration, our having got used to it, and its penetration into the "biology" of society. It is linked to such difficult problems as that of invalidation of the so-called "inflationary tax" by the tightness of the money supply, that of systematic indexing, etc.

I feel sure that in many Latin American countries—I do not say all—we are using categories and formulas to deal with this problem which are not in keeping with the different nature of the inflation we are experiencing. I say this with total conviction because I believe that the present type of inflation calls for more than merely economic solutions, since, in addition to conditioning the entire outlook for economic growth, it also has an impact on the prospects of social and political stability. Clearly, this subject is of enormous importance in the Latin America of today, and in respect of it not only the orthodox but also the heterodox schools of thought are in arrears. No clear-cut solutions have yet been put forward, and I am afraid that we are deluding ourselves with many of the adjustments that are now being promoted in the region. In all honesty, we cannot say that we are on the right track yet in this connection, because the inflation of today is structurally different from any of the types of inflation that we have seen in the past. What is even more important, however, is that it has become a basic political issue, and without a broad-based internal consensus there is no way to eliminate inflation of this type. That is why I can say, with legitimate pride, that in my own small country, where this problem is on a much more modest scale, our attempt at concerted political effort, whatever its defects, constitutes a real step towards solving the problem.

I should now like to discuss the question of a qualitatively different type of development. I think it is dangerous to place too much emphasis on this term "qualitatively different". What is involved here, and I believe that in saying this I am interpreting the documents presented by the Secretariat, is to take up once again the long-standing tradition of ECLAC, i.e., to return to an analysis of the actual situation we are dealing with, to learn what is really taking place in the

world, and to reflect upon the new challenges being faced, on the basis of that mixture of ideas and praxis which has been the great legacy of this organization throughout the nearly 40 years of its existence. In a sense, this would be a return to the experience of ECLAC in the 1950s, i.e., a return to the close examination of international events in order to slowly build up a line of interpretation based on ideas and practice; but we cannot put forward broad paradigms which no-one is now in a position to offer, either in the region or in the world.

A great task of economic, social and political modernization of Latin America lies before us. Modernization must start off from the basis, first of all, of the Latin America that exists today, which is a different and extremely complex Latin America. Without a doubt, the first step is to understand what it is really like. The second is to understand the world, because the relationship between the centre and the periphery—a concept which this Commission contributed to economic thought—is and will continue to be a fundamental relationship. It is necessary to understand our problems in the light of the changes that have taken place in this centre-periphery relationship, and, in trying to modernize Latin America, to give due thought to the domestic effort, to the effort to establish regional integration and to possible new forms of insertion in the world setting. This is what we have called modernization supported by its true pillars: modernization which, as stated in the documents, is both endogenous and selective, so that internal linkages may be created within the economy and so that it may be protected from fluctuations in international trade, prices or finance.

This surely involves reviving—in a world that is entering upon a third industrial revolution—the high-priority problem of technological innovation: an area in which the region must unremittingly reflect and work. It also implies institutional modernization, which is why the Secretariat documents refer so often to the subject of the State. The modernization of the State is perhaps one of the most difficult and most political of the challenges that the region will have to face in coming years. In so far as social modernization is concerned, it seems to me that even the very techniques of social policy are being called in question. Perhaps, with this crisis,

conventional social policy has been left behind and other ways should be sought of reaching the lowest-income sectors of society: that 10% or 20% which never receives anything and which is now the victim of some of the most underprivileged situations in history. With respect to political modernization, Aníbal Pinto pointed out, with his customary brilliance, how the old mesocratic alliances that formed the political base on which the Latin America of the 1950s, 1960s and 1970s was built have been breaking down. For many reasons, including the autocratic and dictatorial political régimes that have sprung up on occasion in Latin America, these alliances have been disrupted. I believe that political modernization involves the rebuilding of mesocratic alliances as well as broad internal alliances within the countries, within the public sector, between the public and private sectors, and in all areas of society. If we are unable to adopt a modern approach to politics with a sense of commitment in relation to the demands before us, we shall have some very difficult times ahead. Meanwhile, the world goes on, and just as entire areas have lagged behind in the past, the region might well have to pay that

price if we do not make a great internal effort to exert social and political pressure for the advancement of modernization.

This is the task which lies before us; it entails a return to the realities of Latin America and the world, the reaffirmation of broad objectives of growth, equity, autonomy and integration and, especially, recognition of the imperatives of the world into which we are becoming integrated and the vital need for creativity in dealing with these problems, the last-named being an important facet of this organization's work.

In speaking about the elements behind such an important meeting as this, I have attempted to put across my perception of the vital importance of this exercise in reflection, which will mark the beginning of an ongoing process, and to make it clear how important it is that the results of this meeting should constitute a true working mandate for ECLAC, reflecting the contribution of all the governments. The intellectual debt which Latin America owes to ECLAC will surely grow still greater as the region, in the words of Norberto Gonzalez, prepares itself to meet, not the past, but the future.